

## ***Henderson Ridge Consulting, Inc.***

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February 12, 2014

Louisiana Public Service Commission  
Attention: Brittany Stewart  
Office of the General Counsel  
602 North Fifth Street, 12<sup>th</sup> Floor (Galvez Building) (70802)  
P.O. Box 91154  
Baton Rouge, Louisiana 70821-9154

Re: **RFP 14-01** *Dixie Electric Membership Corporation, ex parte*

***In re: Docket No. U-32977 – Dixie Electric Membership Corporation (“DEMCO”) Request for Establishment of Regulatory Asset and Recovery of Hurricane Isaac Storm Restoration and Repair Expenses.***

**AND**

***In re: Docket No. U-33063 – Dixie Electric Membership Corporation (“DEMCO”) 2013 Formula Rate Plan Annual Report and Application for Extension of Formula Rate Plan***

Dear Ms. Stewart:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission’s (“LPSC” or “the Commission”) January 27, 2014 Request For Proposals (“RFP”) for independent technical consultants to assist the Commission in conducting a review of Dixie Electric Membership Corporation’s (“DEMCO” or “the Cooperative”) Formula Rate Plan (“FRP”) Annual Filing and the Cooperative’s request for the establishment of a regulatory asset and the recovery of unreimbursed Hurricane Isaac storm restoration and repair expenses. In prior engagements with the LPSC, Henderson Ridge Consulting has conducted earnings reviews of several electric distribution cooperatives that are subject to the regulation of the Commission, including DEMCO. Our firm is also experienced with the Formula Rate Plans that have been approved by the Commission and has designed several of the Formula Rate Plans that are currently in

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effect for LPSC-jurisdictional electric distribution cooperatives and water and sewer utilities.

**Scope of Representation**

As defined in the RFP, the consultant retained by the Commission shall assist Staff in three areas: (1) the evaluation of DEMCO's 2013 Annual Report pursuant to the provisions of Order No. U-30893, (2) the determination of whether DEMCO's request to extend the FRP is in the public interest, and (3) the evaluation of DEMCO's request for recovery of Hurricane Isaac storm restoration costs. Henderson Ridge Consulting has reviewed the Commission orders that are relevant to DEMCO's FRP as well as the Commission order authorizing DEMCO to amortize the regulatory asset established for Hurricane Gustav and snow storm related restoration costs. Our firm is very familiar with the FRP schedules and filings of LPSC-jurisdictional utilities in general, and, DEMCO specifically. With respect to DEMCO's request for recovery of Hurricane Isaac storm costs, our firm is particularly well-qualified to perform the evaluation of the Cooperative's application because of our extensive experience with the prior storm restoration filings submitted by ELL and EGSL after the 2005, 2008, and 2012 hurricanes. We have also worked closely with other Louisiana electric distribution cooperatives in the review of their claimed storm restoration expenditures.

**Summary of Work Plan**

Henderson Ridge Consulting will evaluate the annual filing submitted by DEMCO in support of the 2013 test year. We will determine whether additional adjustments should be made outside of those prescribed in the FRP and assess how such adjustments affect the earnings bandwidth set for the Cooperative under the terms of the FRP. The bandwidth specified under the Times Interest Earned Ratio ("TIER") is a minimum TIER of 1.35 and a maximum TIER of 1.55. The lower limit for the Debt Service Coverage Ratio ("DSC") is set at 1.40.

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The major services, procedures, and tests that will be performed include:

- Examine documentation provided in support of test year pro forma adjustments;
- Prepare formal discovery and review responses;
- Perform a detailed review of the test year general ledger;
- Conduct tests of accounts and examine documentation in support of specific transactions;
- Meet and hold conference calls with Staff and Cooperative representatives;
- Hold status conferences with Staff;
- Prepare final report and/or prefiled testimony;
- Stand cross examination at Commission hearings;
- Attend Business and Executive Sessions (as Staff deems necessary);
- Assist Staff counsel in the drafting of motions, briefs, and orders; and
- Provide general support services to Staff throughout the engagement.

As part of the evaluation of the annual FRP filing, we will review DEMCO's request for an extension and/or modification of its FRP. This review will include an analysis of the Cooperative's financial results in order to determine whether an extension of the FRP is in the public interest. We will also review specific provisions of the existing FRP and whether such provisions have been invoked effectively by DEMCO during the course of the FRP term.

Henderson Ridge Consulting will apply its experience with prior storm restoration recovery filings of the Entergy operating companies and other Louisiana electric distribution cooperatives in the review of DEMCO's request. Our work will focus upon the detailed review and evaluation of the costs incurred by the Cooperative. We will work together with the Commission Staff to examine and resolve the principal issues outlined below:

- The reasonableness and prudence of the claimed storm restoration expenditures.
- The classification of the claimed storm restoration expenditures between capital expenditures and operating expenses.
- The deferral period for recovery of the storm restoration costs.

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- The recovery of carrying charges and the appropriate carrying charge rate.
- The type and extent of assistance that DEMCO may have realized to offset the balance of claimed storm restoration costs, including insurance proceeds and any federal and/or State assistance.
- The verification that the storm restoration costs have not already been recovered through its Formula Rate Plan.
- Any additional issues that the Staff and Henderson Ridge Consulting identify as needing to be investigated and addressed during the course of the examination.

**Experience of Henderson Ridge Consulting**

Henderson Ridge Consulting has performed detailed earnings investigations of several electric distribution cooperatives that are regulated by the Commission, including DEMCO. Our firm also conducted an affiliate transaction audit of DEMCO in 2004. We worked closely with Jefferson Davis Electric Membership Cooperative prior to and after the landfall of Hurricane Rita in an earnings investigation that incorporated the recovery of the hurricane restoration costs. The following table summarizes our experience in working with the Louisiana electric distribution cooperatives on behalf of the Commission.

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**Henderson Ridge Consulting, Inc.  
Louisiana Electric Distribution Cooperative Projects  
Conducted on Behalf of the Louisiana Public Service Commission**

<u>Cooperative</u>	<u>Docket No.</u>	<u>Year</u>
<u>Earnings Reviews:</u>		
DEMCO	U-26845	2003
Pointe Coupee	U-28608	2005
Jefferson Davis	U-28857 (Phase I)	2006
Jefferson Davis	U-28857 (Phase II)	2007
Beauregard	U-30328	2008
Washington-St. Tammany	U-30455	2008
<u>Formula Rate Plan Design and Evaluation</u>		
Beauregard	U-32540	2013
South Louisiana Electric Cooperative (SLECA)	U-32698	2013
<u>Affiliate Transaction Audit:</u>		
DEMCO	U-27496	2004
<u>RFP for Long-term Power Supply Contract:</u>		
Valley		2007,2008
<u>Certification of Long-term Power Supply Contract:</u>		
Valley	U-30914	2009
Washington-St. Tammany	U-32222	2012
Claiborne	U-32224	2012

Henderson Ridge Consulting has been retained by the Commission since 2005 to examine the annual Formula Rate Plan filings of Entergy Gulf States Louisiana, L.L.C. We have also examined the annual FRP filings of other LPSC-jurisdictional utilities, including electric distribution cooperatives. Many of the schedules which are submitted as part of these filings are the same as or very similar to those developed for the DEMCO Formula Rate Plan. In addition, we have not only evaluated the annual FRP filings but designed Formula Rate Plans for other Louisiana electric distribution cooperatives and water and sewer utilities.

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As stated, our firm has been retained by the Commission to audit the storm restoration expenditures incurred by the Entergy operating companies after Hurricanes Katrina/Rita, Hurricanes Ike/Gustav, and, most recently, Hurricane Isaac. The detailed review conducted by Henderson Ridge Consulting of the documentation supporting individual storm related transactions resulted in disallowances to the Entergy operating companies claimed recovery amount.

A firm resume has been attached to the proposal and provides further background on our experience and prior engagements. Our firm has been retained by the Louisiana Public Service Commission over the years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under its jurisdiction. These engagements have involved electric distribution cooperatives, investor-owned electric utilities, local gas distribution companies, telecommunications carriers, and water and wastewater utilities.

**Minimum Requirements**

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, telecommunications carriers, and water and wastewater companies under the jurisdiction of the Louisiana Public Service Commission. This experience has been applied for the purpose of setting just and reasonable rates. To that end, the firm has experience with several regulatory approaches to determine the utility's revenue requirement, including the traditional rate base/rate-of-return methodology, interest coverage approaches, the cash needs study, and the cost plus margin model.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles specific to electric distribution cooperatives. We are also experienced with incentive based rate mechanisms such as the Formula Rate Plan approved for DEMCO.

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Henderson Ridge Consulting has reviewed the list of minimum requirements identified in as (1) through (10) in Section IV of the Commission's RFP. Our firm is experienced with each of the minimum requirements and can readily satisfy this group of professional standards that the Commission expects of its expert consultants.

**Estimate of Cost**

The professional fees for the project are estimated at \$26,250.00 based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$1,500.00, for a total budget of \$27,750.00.

**Conflict of Interest**

Henderson Ridge Consulting has no current assignments, or any prior assignments, that could pose any conflicts of interest, or the appearance of such conflicts, including, but not limited to, any work performed on behalf of the Louisiana Public Service Commission. The firm does not represent any private clients before the Commission.

Henderson Ridge Consulting appreciates the opportunity to respond to the RFP and to continue its relationship with the Commission and its Staff.

Sincerely,

William Barta  
Principal